

PROGRAM PRIORITIES PROJECT

A Report Prepared for the

Legislative Finance Committee

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Legislative Fiscal Division



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INTRODUCTION

In June 2003, the Legislative Finance Committee (LFC) approved a work plan item to provide program review and a means to evaluate program priorities (Appendix A). At the March meeting, the Legislative Finance Committee (LFC) was given an update on the project. This report provides a further update on progress of the project, along with current and projected outcomes.

PURPOSE OF PROJECT

As stated in the March update, the legislature is essentially the board of directors of the State of Montana. As such, it is the legislature's responsibility to determine what the purpose and scope of state government will be. In order to do this, the legislature must understand what state government currently does, and determine priorities. However, budgeting generally takes place at the "margin", with the implicit assumption that ongoing programs within the base should be continued. Consequently, the larger issues of ongoing public policy can be either overlooked or diminished. Therefore, the primary purpose of this project is to provide the legislature with the information it needs to:

- 1) Put the budget into a more comprehensive, public policy oriented context.
- 2) Prioritize a greater range of services based upon desired public policy.
- 3) Understand more fully how the legislature can influence and control more areas of the budget.
- 4) Make informed decisions within the context of this knowledge.

PROJECT PRODUCTS

This section examines the products that are being produced as a result of this project, the purposes they will serve, what has been accomplished so far, what remains to be done, and how the products can and/or will be used.

Three main products will result from this project. All of these products will aid the legislature in making informed, policy choices about state government. The products are:

- 1) An inventory of the functions of state government, and categorization into the general public policy purpose of the function
- 2) A "profile" of each state agency
- 3) A pocket-sized state government "fact book"

A further "product" of this project is additional issues and options for the legislature by LFD staff members. In fact, a primary expected outcome of the project is to have both a better-informed staff, able to provide a greater range of issues both within and among agencies. Completion of these projects has provided staff with a systematic means of examining more aspects of agency operations. As such it will also aid in the future as the system is maintained and current knowledge is expanded upon.

INVENTORY

As stated in March, one of the primary components of this exercise is creation of an inventory of state government functions. This inventory provides a means for the legislature and others to know what government is through two means:

- 1) A listing of functions performed by state government; and
- 2) Categorization of those functions into a category of expenditure that shows the purpose of the function.

Budgeting is done by individual agency and division. While this method is very logical in structure, it also means that budgeting can be compartmentalized. Providing an inventory by function and overall purpose affords the opportunity to more systematically examine issues that cross agency lines. Appendix B lists all categories, with a brief definition of each.

Status

All state agency functions have been identified and categorized. Remaining to be completed is construction of a database that maps each function to the cost reporting centers on the state's accounting system. Completion of this mapping will put expenditure levels to each function both within an agency and across agency lines.

What Remains to be Done?

Two things remain to be done:

- Construction of the database
- Insertion into the database of all functions and mapping of cost centers

How Will It Be Used?

Once the database is constructed and populated, staff members will have access to cost and category information for all of state government. This information will allow for:

- Issue identification and exploration on a multi-agency basis, and/or with a foundational "purpose of state government" orientation that allows for more policy oriented decision-making.
- A means of examining both the Executive Budget (to a limited degree) and legislative action with a purpose orientation
- A sustainable database both for current staff and for training purposes

AGENCY PROFILES

The agency profile takes a big picture look at each agency to answer a number of questions, including:

- 1) What the agency does
- 2) How they do it
- 3) How much it costs and how costs are trending
- 4) What drives costs and/or level of operations, and therefore what the major decision points are

The general goal is to provide information to facilitate policy oriented decisions and understanding.

Because state government is a large and complex organism, anyone approaching this organism can find himself or herself quickly overwhelmed not only by its size, but also by the sheer volume of information. Given the nature of budgeting and other decision making, the details and marginal changes frequently become the objective and outcome of discussion and decisions, in part because decision makers and others often have little sense of the fundamentals of an agency and the major policy choices and trends, both within the agency and statewide. The agency profiles would provide this big picture look and, consequently, what many of the factors are that must be examined if the legislature is to make policy oriented decisions to control agency, and therefore overall state government, size, scope, or purpose. Appendix C is a sample document. Please be advised that the document is still being refined, and most statistics are for table illustration purposes, only.

Status

The profiles are currently in process. As of this writing, a focus group of legislators, lobbyists, and an agency representative will provide direct feedback, which may result in changes to the example given.

What Remains to be Done?

Agency profiles are in early stages, although most of the information necessary for completion has been gathered for the expenditure growth and inventory projects. Target completion date for all profiles is August, prior to budget analysis, for printing prior to legislative caucuses.

How Will It Be Used?

The agency profiles can be used:

- 1) During the legislative session, as a(n):
 - Source of foundational knowledge for budget work, including floor action, to provide both for policy driven decisions, and to put all requests for changes into a larger perspective
 - Aid for citizens to participate in government
- 2) During the interim by legislators and other interested persons for reference and general understanding of an agency and the primary policy choices faced

“FACT BOOK”

The division plans to produce a pocket-sized document (tentatively called a “fact book”). The purpose of the fact book is to serve as a reference document for legislators and interested members of the public to the major service areas of state government, and the various factors that determine the levels and drive the costs of providing those services. This information is provided so that decision makers can:

- 1) Understand the general types of services that define state government, and the sizes, sources of funding, and major programs within those service areas.
- 2) Know the factors that drive state government revenues and expenditures, and consequently what must be adjusted in order to control or direct those revenues and expenditures.
- 3) Understand trends and challenges that will influence future revenues, expenditures, and policy decisions.

The fact book is a byproduct of the expenditure growth/agency profile/inventory projects.

The fact book is being designed to specifically answer the following questions:

- 1) What drives the economic base of Montana that determines both the revenues and expenditures of state government? How have those factors changed over time, and how do they correlate to state government revenues and expenditures? Examples: personal income, population, employment, inflation.
- 2) Where do state government revenues come from, and what are the most important factors driving those revenues? How have those factors changed over time? Examples – wages and salaries, alcohol consumed, natural resources extracted
- 3) What does Montana government spend money on, and what are the most relevant statistics when examining changes in expenditures over time? Examples - Number of persons qualifying for Medicaid and TANF, attending institutions of learning, and incarcerated; number of courts, miles of road, and school districts; distance from major medical centers; population and income shifts.
- 4) What are other relevant facts about Montana, including basic legislative information, and major session and state agency phone numbers?

Other states have produced some variation on this type of publication. A sampling of the book produced by Texas is attached as Appendix D.

Status

The content of the fact book has been roughed out and specific information for inclusion is under discussion. It should be noted that this project is currently the third priority for project completion. Consequently, completion could be delayed until next interim if time constraints warrant.

What Remains to be Done?

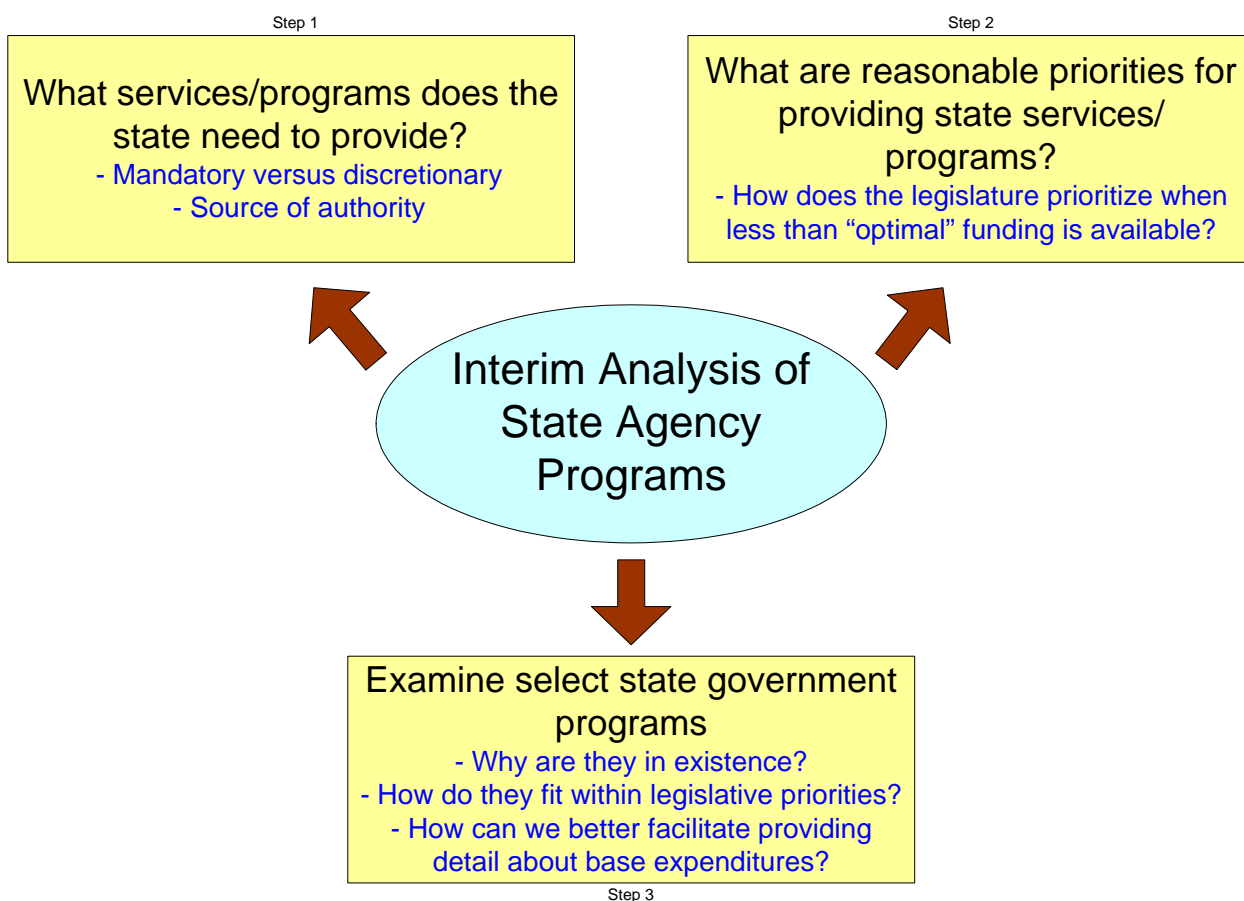
While a rough draft of the fact book has been done, the details of specific organization and tables remain. The project is scheduled for completion in time to have the book available for the November caucuses and the legislative session.

How Will It Be Used?

The fact book will primarily be used as a general reference document for all interested persons. The specific goal is for the reader to understand the big picture of state government, and trends of the factors that influence the size and direction of state government. It will have limited direct budgeting use, except in conjunction with the agency profile and specific issue exploration.

Appendix A

Work Plan Item - - Program Reviews / Evaluate Program Priorities



Goal: Better position the staff and the LFC to help the legislature identify/evaluate program priorities

Appendix B

CATEGORIES

1. Provision of Justice and Protection of Life and Property¹

Definition: Operation of the means of citizens to seek justice and remediation (all courts); to protect the citizenry from violent/fraudulent/etc. behavior and pursue justice against those who perpetrate such acts; and to operate correctional facilities and programs.

2. Reduction of Incidence and Impacts of Poverty/Disability²

Definition: Services that enhance the productivity and productive capacity of economically disadvantaged or disabled (mentally or physically) citizens, and/or enhance their quality of life through reduction of hunger, lack of housing and medical attention, etc.

3. Enhancement and Promotion of the Public Health³

Definition: Services designed to improve the quality of life and health of either all citizens, or those pertaining to targeted behaviors or conditions. Reducing the costs to the state of the category above is a corollary purpose.

4. Workforce Support

Definition: All services provided that support a trained and productive workforce, including those that are specifically designed to protect their health and economic status. Does not include services designed specifically for the economically or developmentally challenged.

5. Development of Full Educational Potential of State's Citizens

Definition: Provision of public educational services. Does not include training provided by the state such as retraining of displaced workers, or vocational rehabilitation.

6. Consumer/Citizen Protection⁴

Definition: Services designed to protect the health and safety of citizens from sources related to activities and/or consumption of products.

7. Economic/Business Development

Definition: Services directly related to improving business climate and/or creation of jobs, or designed to aid specific businesses or types of businesses. Those services not specifically directed to this purpose are listed by their primary purpose.

8. Protection, Enhancement, Remediation of Natural Resources

Definition: Services conducted to protect, or eliminate or alleviate past or current harmful impacts to, the state's natural resources; and/or restore the beauty and/or productive capacity of those resources.

1) _____

¹ General protection, dispute resolution/mediation, rehabilitation.

² Assistance to economic/physical/mental disadvantaged.

³ Non-direct poverty related.

⁴ Non-justice related, or specific to groups rather than the general public.

9. Preservation/Enhancement of Recreational/Cultural Resources

Definition: Those services not related directly the health and safety of citizens or the environment, but that enhance the experience of living in Montana.

10. General Operation of State Government

Definition: Those operations designed specifically for the operation of state government in support of other programs.

11. Infrastructure – Governmental and Physical

Definition: Those operations that either provide for the state's physical infrastructure, such as roads, or without which government would not function, such as the legislature and the Governor.

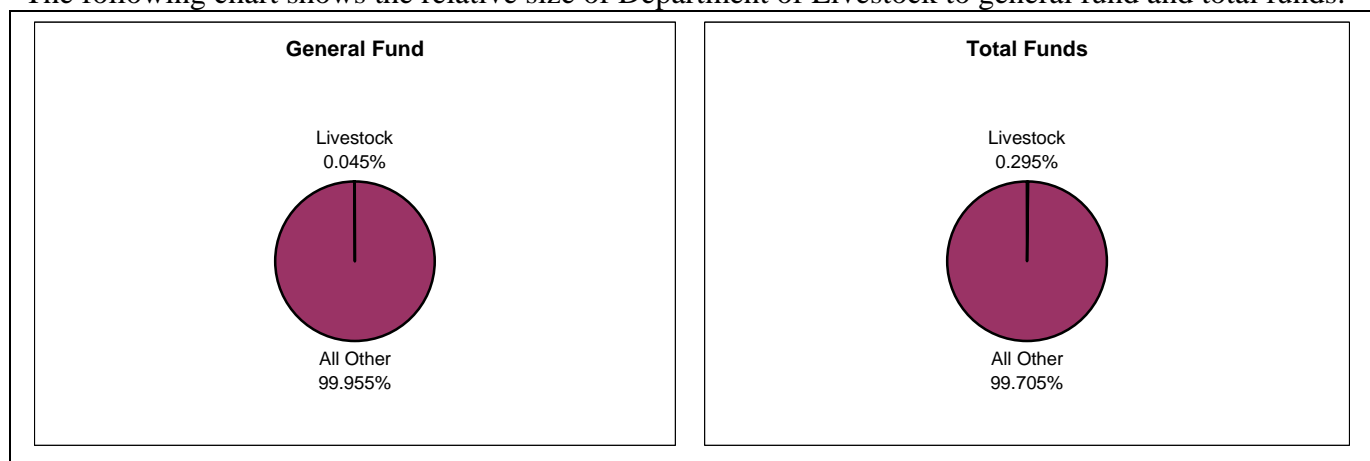
Appendix C

Department of Livestock Agency Profile

WHAT DOES THE AGENCY DO?

The Department of Livestock, provided for in 2-15-3101 MCA, consists of the Board of Livestock and its appointed executive officer; the Livestock Crimestoppers' Commission; and the Beef Research and Marketing Committee. The Board of Livestock is the statutory head of the Department with seven members appointed by the Governor and confirmed by the Senate to serve six-year terms.

The following chart shows the relative size of Department of Livestock to general fund and total funds.



Agency Functions, State Purposes Served, and Customers

The Department of Livestock is structured to perform certain functions in support of general state government purposes. The following lists the major functions, purpose of provision of the functions, and primary customers served.

<i>State Purposes</i>	<i>Major Agency Functions</i>	<i>Customers</i>
<i>Consumer/Citizen Protection</i>	Meat and Poultry Inspection	Consumers
	Milk/Egg and Dairy Inspection	Consumers
	Horse Racing Inspection and Regulation	Consumers
	Diagnostic Milk Laboratory (testing)	Consumers
	Milk Transfer Control (regulation)	Consumers and Producers
	Animal Disease Control	Producers and Consumers
	Alternative Livestock Regulation/Licensing	Consumers (e.g. game farms)
<i>Economic/Business Development</i>	Brands Recording and Inspection	Producers
	Predator Control	Producers
	Bison Management	Producers
	Diagnostic Veterinary Laboratory	Producers and Veterinarians
<i>Provision of Justice and Protection of Life and Property</i>	Crimestoppers	Producers
	Landowner Dispute Resolution	Producers

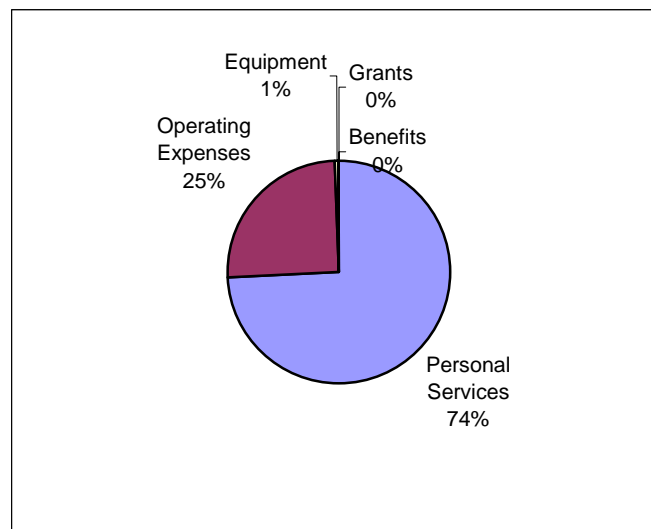
The following chart shows the relative size of the primary purposes the Department of Livestock supports.

Insert dual pie chart here

How Services Are Provided

The Department of Livestock provides these services and functions through the employment of state FTE, who conduct inspections, record and inspect brands, operate the state diagnostic veterinary laboratory, provide technical assistance and education to producers, etc. Personal service costs account for 74.2 percent of all department expenditures, while contract services account for less than ten percent of all department expenditures (based upon FY2003 data)

**Department of Livestock
Expenditure Categories (First Level)**



The Department of Livestock provides these services through a structure consisting of six divisions with the following functions:

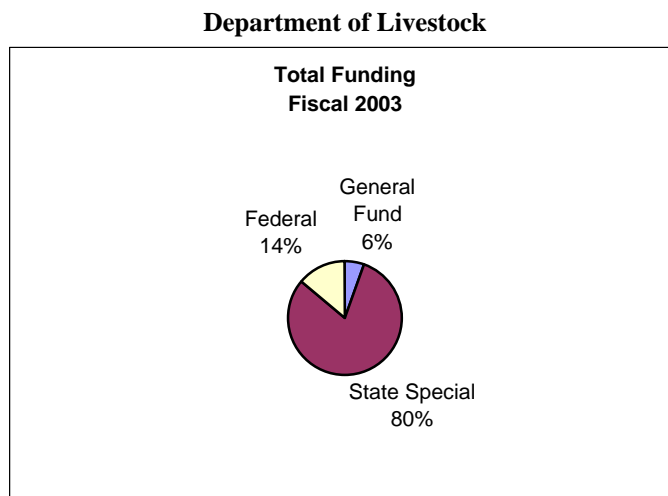
1. **Brands Enforcement Division** – provides professional law enforcement and investigative work to track livestock ownership, record and inspect livestock brands.
 - a. **Predator Control Program** – provide protection from certain types of predators that threaten domestic livestock, and may endanger human safety.
2. **Diagnostic Laboratory Division** – provide veterinary lab testing and services to producers, veterinarians, animal owners, and other department divisions, as well as some public health related testing for other government entities (e.g. rabies, west Nile virus).
3. **Meat, Milk and Egg Inspection Division** – ensure clean, wholesome, and properly labeled meat, poultry, egg and dairy products for consumers through:
 - a. **Meat/Poultry Inspection Bureau** – conduct on site inspections (e.g. slaughterhouses).
 - b. **Milk and Egg Bureau** – conduct on site inspections (e.g. dairies).
4. **Animal Health Division** – safeguard health and food production capacity of Montana's animals and poultry through prevention, diagnosis, control and eradication of animal disease.
5. **Board of Horseracing Division** – ensure the integrity of the state's horse racing industry.

6. **Centralized Services Division** – provide budget, accounting and other administrative functions to support department operations, and provide leadership through the Board of Livestock.
- a. **Milk Control Board** – to regulate and control the transfer of milk.

Department of Livestock Divisional/Functional FTE and Funding			
Division/Function	FTE	FY2004 Appropriation	FY2004 General Fund
Brands Enforcement	61.71	\$2,800,000	\$0
Diagnostic Lab	21.00	1,450,000	\$91,911
Animal Health	18.00	1,740,000	0
Meat/Poultry Inspection	17.50	868,000	\$430,667
Milk/Egg Inspection	4.00	244,000	0
Centralized/Administration Services	16.00	1,800,000	0
Board of Horse Racing	3.78	202,000	0
Milk Control	<u>3.50</u>	<u>185,000</u>	<u>0</u>
<i>TOTAL</i>	<u>145.49</u>	<u>\$9,289,000</u>	<u>\$522,578</u>

How Services are Funded

The Department of Livestock is primarily funded with state special revenue through assessments on livestock producers (per capita fees), for licensing (production plants, pari-mutuel betting, etc.), brand recording fees, and fee-for-service laboratory testing. Federal funds support USDA regulated meat and poultry inspections, dairy inspections, animal health surveillance (BSE and scrapies), homeland security programs and bison management programs around Yellowstone National Park. General fund supports meat and poultry inspection functions (as required by USDA 50/50 general fund match requirement) and public health testing services by the diagnostic veterinary laboratory.

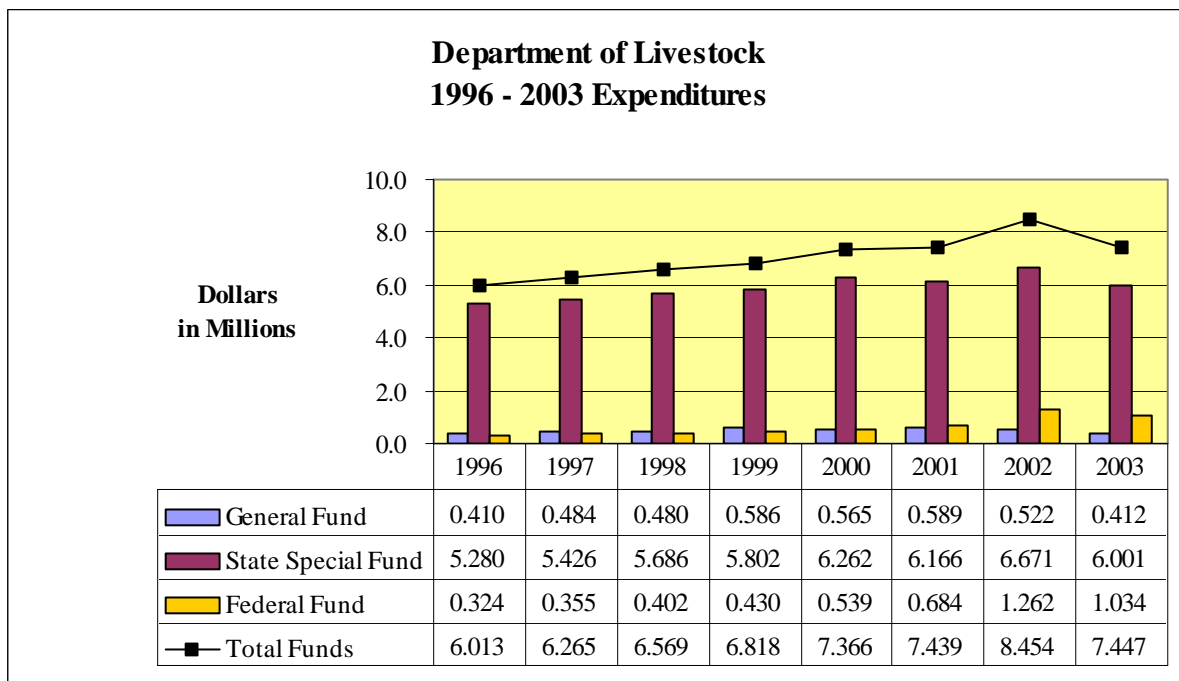


Related Data and Statistics

The following lists pertinent statistics related to Department of Livestock functions and/or customers.

Element	1996	2004	Significance of Data
Number of Cattle in MT			Per-capita (headcount) fees are primary revenue
Number of Brands Recorded			Primary workload and revenue for major division
Number of Meat Processing Operations in Montana			Dictates level of meat and poultry inspections
Number of Meat/Poultry Inspections			Workload for meat/poultry inspection functions
Number of Dairies in MT			Dictates level of milk inspections
Number of Dairy Inspections			Workload for milk/egg inspection functions
Number of Lab Services			Workload and demand for diagnostic laboratory
Number of Bison Incidents			Workload for bison management functions
Number of Predator Incidents			Workload for predator control functions
Number of horse race tracks			Workload for horse racing regulation
Quantity of Milk Sold			Workload for milk control functions

Expenditure History



Note: The spike in federal funding in 2002-2003 represents the *Bison Control & Management Program* around *Yellowstone National Park*

Department of Livestock		
Fund	Percent of Total (2003)	Average Growth (1996 - 2003)
General Fund	5.5%	0.1%
State Special Fund	80.6%	1.8%
Federal Fund	13.9%	18.0%
Total Funds	100.0%	3.1%

Reasons for Expenditure Growth/Change

- There was a three-year spike in general fund expenditures 1999-2000 which can be attributed to:
- A philosophical shift towards supporting functions that are defined as “public health/safety” with general fund rather than state special revenue (producer fees). This shift was reflected in funding allocations for the Central Services Division, which provides administrative support for all Department functions, and in the Diagnostic Lab.
- Vehicle replacement costs in the Inspection Division during these years.
- Increased FTE for meat inspectors, which requires a general fund match of USDA funds.
- State special revenue expenditures experienced only moderate growth until 2002 due to:
- The reorganization that brought the Board of Horseracing to Livestock from Commerce, which is funded entirely through self-generating state special revenue, creating an expenditure increase.
- With increased meat inspectors and inspections, there has been a concurrent increase in the overtime costs for those inspectors who travel extensively.
- There has been significant growth (18% average) in federal special revenue expenditures attributable to the federal bison management program (brucellosis control) around Yellowstone National Park.
- General fund expenditures were subsequently reduced in FY 2003, starting with executive mandated cuts, and reductions have been sustained in large part through indirect cost charges against federal grants that have been used to supplant general fund. This allows a cost shift, primarily in Centralized Services, from general fund to federal special revenue.

HOW CAN THE LEGISLATURE EFFECT CHANGE?

In order to change expenditure levels and/or Department of Livestock activity, the legislature must address one or more of the following basic elements that drive costs.

- Inspection regulations – although most livestock inspections (meat, poultry, milk, eggs, etc.) are defined by federal regulation (USDA and FDA), the State of Montana could develop inspection regulations and requirements. The number of facilities (slaughterhouses and meat processing plants) and the number of animals to be inspected are the multipliers for the regulations themselves. Although these numbers are beyond some level of control (a function of the livestock economy and animal raising conditions), regulation can also address the percent of animals that are to be inspected and the frequency of inspecting processing facilities.
- Brands enforcement and animal health – the commerce and movement (interstate, intrastate and international) of livestock is regulated and controlled by brands (for economic and animal health reasons), with state FTE charged with monitoring that commerce. Expenditure levels can be

changed based upon changing policies related to ensuring livestock transactions occur in accordance with regulations as well as in accordance to animal disease control methods. Also, new or emerging animal health issues may require new surveillance and inspection regulations (e.g. BSE [mad cow disease] and avian flu).

- Predator control – these activities are driven by the definition of which animals are predators and what means are used to kill/control these animals (e.g. a hunting season, helicopter patrols, etc.).
- Bison management – although this program is funded by federal special revenue, the costs of the program relate to the state decision that bison from Yellowstone National Park pose a brucellosis threat to the state cattle industry.
- General fund expenditures – in the Department of Livestock, general fund is only used to support meat/poultry inspections and some public health testing in the diagnostic laboratory.
- The USDA funded inspection program requires a 50/50 general fund match, so this general fund expenditure is a factor of federal regulation and not readily subject to state influence.
- Public health testing in the diagnostic veterinary laboratory is primarily rabies and west Nile virus, so this general fund expenditure is a function of state policy on control and eradication of these diseases.

The following lists the primary factors influencing the drivers of costs for the Department of Livestock. Please note that the list is not exhaustive.

- Animal diseases
- International and interstate commerce regulations
- Federal food inspection regulations (and general fund match requirement)

Statewide Factors with Impact

In addition to the factors above, a number of factors common to many agencies will also impact changes in expenditures over time.

- State FTE – state employees perform virtually all functions of the Department of Livestock, with personal services accounting for 74 percent of department expenditures; personal service costs are the primary influence that drives costs. Therefore any decisions that change FTE levels will have a direct and immediate impact on the delivery of services/functions by the department. Factors affecting personal service costs include:
 - Professional/technical/educational requirements of FTE job descriptions;
 - Cost of benefits
 - Years of service or longevity
 - Economic factors
 - Number of livestock producers – influences per capita revenue and workload
 - Number of meat processors – influences inspection workload